

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Isabella County Transportation Commission	County Isabella
Fiscal Year End 9/30/06	Opinion Date 11/15/06	Date Audit Report Submitted to State 1/26/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

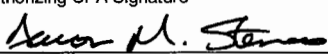
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	N/A	
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	Zip 48823
		License Number 1101024055	

**Isabella County Transportation Commission  
Mt. Pleasant, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2006**

Isabella County Transportation Commission

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Isabella County Transportation Commission  
Mt. Pleasant, Michigan

We have audited the component unit financial statements of the Isabella County Transportation Commission as of and for the year ended September 30, 2006, as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Isabella County Transportation Commission as of September 30, 2006, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2006, on our consideration of the Isabella County Transportation Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as identified in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the component unit financial statements that collectively comprise the Isabella County Transportation Commission's basic financial statements. The accompanying other supplementary information, as identified in the Table of Contents, and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Isabella County Transportation Commission. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 15, 2006

Isabella County Transportation Commission  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

The intent of the management's discussion and analysis is to provide highlights of the Commission's financial activities for the Fiscal Year ended September 30, 2006. Readers are encouraged to read this section in conjunction with the basic financial statements.

**Using this Audit Report**

This annual audit report consists of this management's discussion and analysis report, the independent audit's report, and the basic financial statements of the Commission, which include notes that explain in more detail some of the information in the financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of Isabella County Transportation Commission for the fiscal year October 1, 2005 to September 30, 2006.

**Isabella County Transportation Commission as a Whole**

Isabella County Transportation Commission's total net assets decreased approximately 2% from a year ago - decreasing from \$4,407,123 to \$4,326,554. In fiscal year 2006 significant funds were expended for deficits incurred during our years in the Health Insurance Pool. In a condensed format, the table below shows a comparison of the net assets as of 9/30/06 to the prior year 9/30/05.

**CONDENSED STATEMENT OF NET ASSETS**

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>
Current and Other Assets	\$ 1,085,874	\$ 1,052,747
Capital Assets, Net	<u>3,961,146</u>	<u>4,203,074</u>
Total Assets	5,047,020	5,255,821
Current Liabilities	328,751	354,399
Noncurrent Liabilities	<u>391,715</u>	<u>494,299</u>
Total Liabilities	<u>720,466</u>	<u>848,698</u>
Invested in Capital Assets Net of Related Debt	3,471,798	3,608,699
Unrestricted	<u>854,756</u>	<u>798,424</u>
Total Net Assets	<u>\$ 4,326,554</u>	<u>\$ 4,407,123</u>

**Isabella County Transportation Commission Activities**

Isabella County Transportation Commission's operating revenues increased approximately \$8,971, with transportation revenue increasing approximately \$37,437. This was primarily due to an increase in ridership and contract activities. Nonoperating revenue increased by approximately \$435,898 reflecting the increase in our property tax millage. Operating expenses decreased by \$69,736, due in part to the reduced health insurance premiums with MERS Premier Health. Depreciation expense decreased approximately \$27,070 from 2005. As a result, the net decrease in net assets after depreciation was \$80,569. In a condensed format, the table shows a comparison of the revenues and expenses for 2006 and 2005.

Isabella County Transportation Commission  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

**Isabella County Transportation Commission Activities - Continued**

CONDENSED STATEMENT OF REVENUE, EXPENSES,  
AND CHANGES IN FUND NET ASSETS

	Fiscal Year <u>2006</u>	Fiscal Year <u>2005</u>
Operating Revenues	\$ 544,644	\$ 535,673
Nonoperating Revenues	<u>3,142,801</u>	<u>2,706,903</u>
Total Revenues	3,687,445	3,242,576
Depreciation Expense	618,693	645,763
Other Operating Expenses	3,128,203	3,197,939
Nonoperating Expenses	<u>21,118</u>	<u>29,502</u>
Total Expenses	<u>3,768,014</u>	<u>3,873,204</u>
Change in Net Assets	( 80,569 )	( 630,628 )
Prior Period Adjustments	-	8,860
Beginning Net Assets	<u>4,407,123</u>	<u>5,028,891</u>
Ending Net Assets	<u>\$ 4,326,554</u>	<u>\$ 4,407,123</u>

**Capital Assets**

At the end of fiscal year 2006 Isabella County Transportation Commission had approximately \$7,283,183 in capital assets. This is a increase of \$376,765 from fiscal year 2005 due to the Commission's purchase of several new buses, communication, and video surveillance equipment.

**Long-term Debt**

At September 30, 2006, Isabella County Transportation Commission had a long-term debt balance of \$489,348. This loan has an interest rate of 4% and is payable in annual installments with the final payment due on April 18, 2011.

**Economic Factors**

Isabella County Transportation Commission's budget for FY 2007 calls for a .1 mill increase in property taxes. We anticipate overall expenses to increase approximately 15% due to an increase in bus service. Isabella County Transportation Commission will continue to monitor the budget to keep these expenses as low as possible.

**Contacting Isabella County Transportation Commission**

This audit report is intended to provide our citizens, taxpayers, and customers with the general overview of Isabella County Transportation Commission's finances and to show Isabella County Transportation Commission's accountability for the money that it receives. If you have any questions about this audit, please contact Isabella County Transportation Commission.

## **BASIC FINANCIAL STATEMENTS**



Isabella County Transportation Commission

STATEMENT OF NET ASSETS

September 30, 2006

ASSETS

Current assets

Cash and cash equivalents	\$ 528,998
Accounts receivable	62,427
Due from other governmental units	319,164
Due from employees	2,288
Land contract receivable - current portion	2,842
Inventories	113,870
Prepays	<u>45,701</u>

Total current assets 1,075,290

Noncurrent assets

Land contract receivable	10,584
Capital assets not being depreciated	54,004
Capital assets, net of accumulated depreciation	<u>3,907,142</u>

Total noncurrent assets 3,971,730

TOTAL ASSETS 5,047,020

LIABILITIES

Current liabilities

Accounts payable	31,509
Accrued payroll	31,016
Compensated absences	62,158
Due to other governmental units	46,041
Accrued interest payable	13,049
Other accrued liabilities	8,563
Deferred revenue	38,782
Current portion of loan payable	<u>97,633</u>

Total current liabilities 328,751

Noncurrent liabilities

Loan payable	<u>391,715</u>
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TOTAL LIABILITIES 720,466

NET ASSETS

Invested in capital assets, net of related debt	3,471,798
Unrestricted	<u>854,756</u>

TOTAL NET ASSETS \$ 4,326,554

See accompanying notes to financial statements.

Isabella County Transportation Commission

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2006

OPERATING REVENUES	
Sales and charges for services	\$ 544,644
OPERATING EXPENSES	
Administrative	459,909
Operations	2,982,819
Maintenance	<u>304,168</u>
TOTAL OPERATING EXPENSES	<u>3,746,896</u>
OPERATING LOSS	(3,202,252)
NONOPERATING REVENUES	
Intergovernmental	
Federal sources	823,704
State sources	1,243,672
Local sources	1,037,439
Interest earnings	<u>37,986</u>
TOTAL NONOPERATING REVENUES	3,142,801
NONOPERATING EXPENSES	
Interest expense on long-term debt	<u>(21,118)</u>
DECREASE IN NET ASSETS	(80,569)
Net assets, beginning of year	<u>4,407,123</u>
Net assets, end of year	<u><u>\$ 4,326,554</u></u>

See accompanying notes to financial statements.

Isabella County Transportation Commission

STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 566,083
Cash paid to employees	(1,463,183)
Cash paid to suppliers	<u>(1,791,773)</u>

NET CASH USED BY OPERATING ACTIVITIES (2,688,873)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Intergovernmental sources	
State and Federal grants	1,638,752
Local contributions	<u>1,037,439</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 2,676,191

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State and Federal capital assistance	329,591
Payment received for land contract receivable	2,684
Purchase of capital assets	(376,765)
Principal payment on long-term debt	(105,027)
Interest payment on long-term debt	<u>(12,180)</u>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES (161,697)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>37,986</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS DURING YEAR (136,393)

Cash and cash equivalents, beginning of year 665,391

Cash and cash equivalents, end of year \$ 528,998

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	\$ (3,202,252)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	618,693
Decrease in accounts receivable	3,485
Decrease in due from employees	89
(Increase) in inventories	(37,622)
Decrease in prepaids	6,513
Increase in accounts payable	3,443
Increase in accrued wages	3,799
(Decrease) in due to other governmental units	(94,000)
(Decrease) in compensated absences	(8,963)
(Decrease) in other accrued liabilities	(12)
Increase in deferred revenue	<u>17,954</u>

NET CASH USED BY OPERATING ACTIVITIES \$ (2,688,873)

See accompanying notes to financial statements.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Isabella County Transportation Commission (The Commission) is considered a component unit of Isabella County, Michigan for financial accounting and reporting purposes.

The Commission receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Commission provides demand response services within Isabella County. The Commission also provides special services on a contractual basis to several nonprofit and governmental agencies within the County.

The accounting policies of the Isabella County Transportation Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Commission has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Isabella County Transportation Commission. The Commission is considered a "component unit" of the County of Isabella, Michigan's governmental operation. As a result, industry standards require the County to include the financial activities of the Commission in the County's Annual Financial Report. The Annual Financial Report of Isabella County, Michigan is available for public inspection at the Isabella County Courthouse.

2. Basis of Presentation

The accounts of the Commission are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Commission resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Commission applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Commission has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash and Cash Equivalents

The Commission cash and cash equivalents accounts consist of deposits with the County Treasurer and other checking accounts. The balances in the cash accounts are available to meet current operating requirements. The County Treasurer is responsible for investing cash in excess of current requirements in various interest bearing accounts.

6. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	40 years
Vehicles	5-12 years
Furniture and equipment	5 years

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

7. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

9. Cost Allocations

The Isabella County Transportation Commission allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE B: CASH AND CASH EQUIVALENTS**

In accordance with Michigan Compiled Laws, the Commission is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. As of September 30, 2006, the carrying amounts of the Commission's deposits were \$11,985 and the bank balance was \$211,237, of which \$100,000 was insured by the FDIC. The balance of \$111,237 was uninsured and uncollateralized. The Statement of Net Assets caption "Cash and Cash Equivalents" includes \$300 of imprest cash and \$516,713 in cash that is on deposit with the Isabella County Treasurer. It is not practical to determine the insured portion of the cash on deposit with the Isabella County Treasurer.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2006, the Commission did not have any investments that would be subject to rating.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Interest rate risk

The Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Commission's cash requirements.

Concentration of credit risk

The Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Commission will do business in accordance with Board approved policy.

**NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units at September 30, 2006, by grant type and year are as follows:

Federal Section 5311 Capital - FY 06	\$ 8,505
Federal Section 5311 Operating - FY 06	241,999
Federal Section 5311 Capital - FY 05	3,575
Federal Section 5311 Operating - FY 05	6,206
Federal Section 5311 Capital - FY 03	10,346
State Section 5311 Capital - FY 06	2,126
State Operating Assistance - FY 05	42,742
State Section 5311 Capital - FY 03	2,587
RTAP Grant	<u>1,078</u>
Total	<u>\$ 319,164</u>

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2006, was as follows:

	Balance Oct. 1, 2005	Additions	Deletions	Balance Sept. 30, 2006
Capital assets not being depreciated				
Land	\$ 54,004	\$ -	\$ -	\$ 54,004

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE D: CAPITAL ASSETS - CONTINUED**

	Balance Oct. 1, 2005	Additions	Deletions	Balance Sept. 30, 2006
Capital assets being depreciated				
Buildings and improvements	\$ 2,784,633	\$ -	\$ -	\$ 2,784,633
Buses	3,159,047	303,358	-	3,462,405
Bus equipment	200,706	-	-	200,706
Route equipment	-	41,735	-	41,735
Office and garage equipment	693,956	31,672	-	725,628
Office furniture	14,072	-	-	14,072
Subtotal	6,852,414	376,765	-0-	7,229,179
Less accumulated depreciation for:				
Buildings and improvements	( 635,279 )	( 139,232 )	-	( 774,511 )
Buses	(1,515,779 )	( 324,993 )	-	(1,840,772 )
Bus equipment	( 169,687 )	( 23,041 )	-	( 192,728 )
Route equipment	( - )	( 659 )	-	( 659 )
Office and garage equipment	( 376,619 )	( 129,361 )	-	( 505,980 )
Office furniture	( 5,980 )	( 1,407 )	-	( 7,387 )
Total accumulated depreciation	(2,703,344 )	( 618,693 )	-0-	(3,322,037 )
Net capital assets being depreciated	4,149,070	( 241,928 )	-0-	3,907,142
Net Capital Assets	\$ 4,203,074	\$( 241,928 )	\$ -0-	\$ 3,961,146

A summary of capital assets by funding source at September 30, 2006, follows:

	Purchased with Commission Funds	Purchased with Capital Grants	Total
Land	\$ 54,004	\$ -	\$ 54,004
Buildings and improvements	1,584,633	1,200,000	2,784,633
Buses	200,103	3,262,302	3,462,405
Route equipment	30,000	11,735	41,735
Bus equipment	9,313	191,393	200,706
Office and garage equipment	157,751	567,877	725,628
Office furniture	-	14,072	14,072
Total	2,035,804	5,247,379	7,283,183
Less: accumulated depreciation	( 767,335 )	(2,554,702 )	(3,322,037 )
Net Capital Assets	\$ 1,268,469	\$ 2,692,677	\$ 3,961,146

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). Depreciation expense in the amount of \$618,693 was reported for the year ended September 30, 2006.



Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Commission for the year ended September 30, 2006:

	Balance Oct. 1, 2005	Additions	Deletions	Balance Sept. 30, 2006	Amount Due Within One Year
MDOT loan payable	\$ 594,375	\$ -0-	\$ 105,027	\$ 489,348	\$ 97,633

Significant details regarding the outstanding long-term debt (including the current portion) are presented below:

\$1,100,000 MDOT State Infrastructure Bank Loan dated April 18, 2000, due in annual installments of \$77,744 to \$117,207 through April 18, 2011, with interest of 4.00 percent, payable annually.

\$ 489,348

The annual requirements to pay the debt principal and interest outstanding for the above loan payable are as follows:

Year Ending September 30,	Principal	Interest
2007	\$ 97,633	\$ 19,574
2008	101,538	15,669
2009	105,600	11,607
2010	109,824	7,383
2011	<u>74,753</u>	<u>2,990</u>
	<u>\$ 489,348</u>	<u>\$ 57,223</u>

**NOTE F: COMPENSATED ABSENCES**

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Upon termination, an employee receives payment for the balance of any unused vacation leave, which was credited on the employee's anniversary date. All unused vacation leave in excess of the amounts allowed by respective union and contractual agreements is lost at the end of the employee's respective anniversary year. No unused sick leave is paid upon termination. Therefore, accumulated vacation at September 30, 2006, will be paid from current financial resources and is recorded as a current liability in the amount of \$62,158.

**NOTE G: PROPERTY TAX REVENUES**

The Isabella County Transportation Commission property tax is levied in December on the State Equalized Valuation of property located in the County of Isabella as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$1.314 billion representing 50% of estimated current market value. In August 2004, the Isabella County Transportation Commission's tax rate of 1.00 mills was renewed for three (3) years, expiring in December 2007. For the year ended September 30, 2006, the Isabella County Transportation Commission levied .80 mills.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE H: DEFERRED COMPENSATION PLAN**

Isabella County Transportation Commission offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

The Administrators are agents of Isabella County for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Commission's financial statements.

**NOTE I: RETIREMENT PLAN**

Plan Description

The Commission participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., salary) employees of the Commission. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees contribute 2.5% of their annual salary to the retirement system. The Commission is required to contribute 7% of the annual salaries of covered employees to fund the system.

Annual Pension Cost

For year ended September 30, 2006, the Commission's annual pension cost of \$32,304 for the plan was equal to the Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at February 1, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Trend information

	Year Ended	
	Feb. 1, 2004	Dec. 31, 2005
Actuarial value of assets	\$ -	\$ 726,413
Actuarial accrued liability (AAL) (entry age)	913,236	1,088,110
Unfunded (overfunded) AAL	913,236	361,697
Funded ratio	0 %	67 %
Covered payroll	462,991	456,406
UAAL as a percentage of covered payroll	197 %	79 %

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

**NOTE I: RETIREMENT PLAN - CONTINUED**

Trend information - continued

	Year Ended Sept. 30,	
	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 25,986	\$ 32,304
Percentage of APC contributed	100 %	100 %
Net pension obligation	-	-

Trend information related to annual pension cost, percentage of annual pension cost contributed, and net pension obligation for the period two years prior has not been presented as required by GASB Statement No. 27, as this is only the second year of the plan. This trend information was obtained from the most recently issued actuarial reports.

**NOTE J: RISK MANAGEMENT**

The Commission carries commercial insurance for the risk of loss due to workers' compensation claims.

The Commission is a member of the Michigan Transit Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities. This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Commission. The Commission pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

The Commission also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Commission has no liability for additional assessments based on claims filed against the pool nor do they have any rights to dividends.

**NOTE K: CONTINGENT LIABILITIES**

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

## **OTHER SUPPLEMENTARY INFORMATION**

Isabella County Transportation Commission

SCHEDULE OF OPERATING REVENUES

Year Ended September 30, 2006

Transportation revenue	
Passenger fares	\$ 262,586
Contract rides	202,104
Auxiliary transportation revenue	
Advertising	<u>13,905</u>
Total transportation revenue	478,595
Nontransportation revenue	
Maintenance services	29,193
CDL fees	35,991
Other	<u>865</u>
Total nontransportation revenue	<u>66,049</u>
TOTAL OPERATING REVENUES	<u><u>\$ 544,644</u></u>

Isabella County Transportation Commission

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administrative</u>	<u>Total System</u>
Labor				
Operator's salaries and wages	\$ 931,570	\$ -	\$ -	\$ 931,570
Other salaries and wages	268,482	119,782	138,274	526,538
Fringe benefits	814,716	80,862	93,050	988,628
Contractual services				
Advertising fees	-	-	6,884	6,884
Maintenance	6,152	10,141	21,115	37,408
Other services	5,282	864	23,926	30,072
Materials and supplies consumed				
Fuel and lubricants	241,332	90	-	241,422
Tires and tubes	25,657	467	-	26,124
Parts	76,712	9,822	86	86,620
Other materials and supplies	4,977	40,219	16,235	61,431
Utilities	-	-	59,803	59,803
Insurance	109,259	-	-	109,259
Miscellaneous expenses				
Equipment rental and lease	3,742	708	2,110	6,560
Dues and subscriptions	-	-	1,678	1,678
Travel and meetings	627	-	2,124	2,751
Other	4,979	130	6,346	11,455
Depreciation	<u>489,332</u>	<u>41,083</u>	<u>88,278</u>	<u>618,693</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,982,819</u>	<u>\$ 304,168</u>	<u>\$ 459,909</u>	<u>\$ 3,746,896</u>

Isabella County Transportation Commission

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended September 30, 2006

Property taxes	\$ 1,007,439
Tribal grants	30,000
Interest	<u>37,986</u>
TOTAL NONOPERATING REVENUES - LOCAL	<u><u>\$ 1,075,425</u></u>

Isabella County Transportation Commission

SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended September 30, 2006

State of Michigan Grants

Formula operating assistance (Act 51)	\$ 1,173,041
Capital grant - Section 5309 (Bus purchases)	60,680
Capital grant - Section 5311 (Bus equipment)	7,825
Capital grant - Section 5311 (Facility renovation)	<u>2,126</u>

Total State of Michigan Grants	1,243,672
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Federal Grants

U.S.D.O.T. operating grant - Section 5311	533,993
Capital grant - Section 5309 (Bus purchases)	242,718
Capital grant - Section 5311 (Bus equipment)	31,300
Capital grant - Section 5311 (Facility renovation)	8,506
Capital grant - Section 5311 (Communications equipment)	3,575
RTAP	<u>3,612</u>

Total Federal Grants	<u>823,704</u>
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TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u><u>\$ 2,067,376</u></u>
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Isabella County Transportation Commission

SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS

Year Ended September 30, 2006

	Federal Section 5311	State Operating Assistance
Expenses		
Labor	\$ 1,458,108	\$ 1,458,108
Fringe benefits	988,628	988,628
Contracted services	74,364	74,364
Material and supplies	415,597	415,597
Utilities	59,803	59,803
Insurance	109,259	109,259
Miscellaneous	22,444	22,444
Depreciation	618,693	618,693
Total expenses	3,746,896	3,746,896
Less: Ineligible expenses		
Nontransportation revenues	33,681	33,681
Expenses associated with sale of maintenance service	29,193	29,193
Audit fees	6,700	-
Grant costs		
RTAP	3,612	3,612
Administrative portion of grant 2002-0053/Z10	40	40
Operating portion of grant 2002-0053/Z7	9,965	9,965
Association dues	9	9
Depreciation	493,203	493,203
Total ineligible expenses	576,403	569,703
NET ELIGIBLE EXPENSES	\$ 3,170,493	\$ 3,177,193
Maximum Section 5311 reimbursement 17% of \$3,170,493, not to exceed \$533,933	\$ 533,933	
Maximum State operating assistance 39.2545% of \$3,177,193, not to exceed \$1,173,041		\$ 1,173,041

Isabella County Transportation Commission

SCHEDULE OF INELIGIBLE EXPENSES

Year Ended September 30, 2006

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible Expense</u>
Urban Mass Transportation Administration		
A) Operating Grants listed on Schedule of Expenditures of Federal and State Awards		
	1. Nontransportation revenues and miscellaneous income and expense are deducted as ineligible grant expenses.	\$ 33,681
	2. Sale of maintenance service - eligible expenses are reduced by proceeds from services.	29,193
	3. Audit fees - Audit fees are a federal ineligible expense when no single audit is required.	6,700
	4. Grant Costs - grant expenditures are included in the total expenses; therefore, they are deducted to arrive at net eligible expenses.	13,617
	5. Association Dues - A percentage of the annual dues paid to transit associations must be deducted as an ineligible expense.	9
	6. Depreciation - depreciation on capital assets purchased with Federal and State grants must be deducted as an ineligible expense.	<u>493,203</u>
	Total	<u>\$ 576,403</u>

Isabella County Transportation Commission  
SCHEDULE OF MILEAGE DATA (UNAUDITED)  
Year Ended September 30, 2006

	Public Transportation Mileage <sup>(1)</sup>
DEMAND RESPONSE	
First quarter	202,308
Second quarter	210,083
Third quarter	197,308
Fourth quarter	197,017
TOTAL DEMAND RESPONSE	<u>806,716</u>

<sup>(1)</sup> The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Isabella County Transportation Commission

SCHEDULE OF VEHICLE HOURS AND PASSENGERS (UNAUDITED)<sup>(1)</sup>

Year Ended September 30, 2006

	<u>Number of Vehicle Hours</u>	<u>Number of Youth Passengers</u>	<u>Number of Regular Passengers</u>	<u>Number of Senior Passengers</u>	<u>Number of Handicapped Passengers</u>	<u>Total Number of Senior and Handicapped Passengers</u>
DEMAND-RESPONSE	63,581	69,303	142,340	34,228	105,372	139,600

<sup>(1)</sup> The methodology used for compiling vehicle hours and passengers has been reviewed and found to be an adequate and reliable method for recording vehicle hours and passengers.

Isabella County Transportation Commission

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended September 30, 2006

	Grant/ Agreement Account No.	Program Approved Amount	Current	
			Revenues	Expenditures
MICHIGAN DEPARTMENT OF TRANSPORTATION				
Act 51 Formula - 2006	Operating	\$ 1,173,041	\$ 1,173,041	\$ 1,173,041
Capital Match	2002-0053/Z10	60,680	60,680	60,680
Capital Match	2002-0053/Z7	39,950	7,825	7,825
Capital Match	2002-0053/Z17	12,400	2,126	2,126
TOTAL STATE ASSISTANCE		<u>\$ 1,286,071</u>	<u>\$ 1,243,672</u>	<u>\$ 1,243,672</u>

## **SINGLE AUDIT SECTION**

ISABELLA COUNTY TRANSPORTATION COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2006

<u>Federal Grantor/ Pass through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor Number</u>	<u>Program Award Amount</u>	<u>Accrued (Deferred) Revenue at Oct. 1, 2005</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through State of Michigan				
Formula Grants for Other than				
Urbanized Areas <sup>(a)</sup>	20.509			
RTAP training funds		N/A	\$ 3,612	\$ -
Section 5311 operating (FY03)		2002-0053/Z5	41,101	41,101
Section 5311 operating (FY05)		2002-0053/Z13	393,080	54,718
Section 5311 operating (FY06)		2002-0053/Z16	533,993	-
Section 5311 capital		2002-0053/Z7	159,800	-
Section 5311 capital		2002-0053/Z17	85,600	-
Section 5311 capital		2002-0053/Z14	<u>31,000</u>	<u>-</u>
			814,005	95,819
Federal Transit Capital Investment Grants				
Section 5309 capital	20.500	2002-0053/Z10	<u>242,718</u>	<u>-</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 1,056,723</u>	<u>\$ 95,819</u>

<sup>(a)</sup> Denotes major program

<u>Adjustments by Grantors to Accrued (Deferred)</u>	<u>Adjusted Accrued (Deferred) Revenue at Oct. 1, 2005</u>	<u>Current Year Receipts/ (Payments)</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue at Sept. 30, 2006</u>
\$ -	\$ -	\$ 2,534	\$ 3,612	\$ 1,078
( 41,101 )	-	-	-	-
-	54,718	48,512	-	6,206
-	-	291,994	533,993	241,999
-	-	20,954	31,300	10,346
-	-	-	8,506	8,506
-	-	-	<u>3,575</u>	<u>3,575</u>
( 41,101 )	54,718	363,994	580,986	271,710
-	-	<u>242,718</u>	<u>242,718</u>	-
<u>\$( 41,101 )</u>	<u>\$ 54,718</u>	<u>\$ 606,712</u>	<u>\$ 823,704</u>	<u>\$ 271,710</u>



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**Board of Directors**

Isabella County Transportation Commission  
Mt. Pleasant, Michigan

We have audited the component unit financial statements of the Isabella County Transportation Commission as of and for the year ended September 30, 2006, and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Isabella County Transportation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Isabella County Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and the Board of Directors of the Isabella County Transportation Commission, the federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 15, 2006

Principals

Dale J. Abraham, CPA  
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors

Isabella County Transportation Commission  
Mt. Pleasant, Michigan

Compliance

We have audited the compliance of the Isabella County Transportation Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Isabella County Transportation Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Isabella County Transportation Commission's management. Our responsibility is to express an opinion on the Isabella County Transportation Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Isabella County Transportation Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Isabella County Transportation Commission's compliance with those requirements.

In our opinion, the Isabella County Transportation Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Isabella County Transportation Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Isabella County Transportation Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management and the Board of Directors of the Isabella County Transportation Commission, the federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 15, 2006

Isabella County Transportation Commission  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended September 30, 2006

**Section I - Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.509	Formula Grants for Other than Urbanized Areas

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

**Section II - Financial Statement Findings**

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None

**Section III - Federal Award Findings and Questioned Costs**

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None

Isabella County Transportation Commission  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended September 30, 2006

There were no findings disclosed for the past two years.